



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Chuck Grassley
Taxation and Oversight Subcommittee Hearing:
“Blowing the Cover on the Stealth Tax: Exposing the Individual AMT”
Monday, May 23, 2005

First off, thank you to Senators Kyl and Jeffords for your work on putting together this hearing on the Alternative Minimum Tax. I'd like to take a few minutes, make a short statement, and ask the witnesses to answer a couple of questions. The AMT penalizes married taxpayers and taxpayers with children because the AMT prohibits deductions for dependents, and by 2010, about 6 million taxpayers will face the AMT simply because they have children. Among married taxpayers with two or more children, 85 percent will face the AMT in 2010. Eighty five percent! To me, that's an incredible figure. We can't let that happen. Mr. Chairman, let me repeat it. We cannot let 85 percent of families with two or more children face the AMT. Those families have enough of a tax burden already. Asking them to deal with the AMT as well is just plain wrong.

As I see it, we have two tasks in front of us on the AMT. The first is to make sure we continue to stop the damage with the AMT hold harmless, or “patch.” There is room in the reconciliation bill to cover the patch, and I intend to use it when we get to that bill this fall. I hope we'll have bipartisan support for that effort. Keep in mind that, at least from my standpoint, \$30 billion of the reconciled tax relief is supposed to go for the AMT hold harmless. Together with other bipartisan expiring tax relief policy, like college tuition deductibility, small business expensing, and the research and development (“R&D”) tax credit, the reconciliation bill should be supported most on this committee.

The second task deals with the long-term solution for the AMT problem. From my standpoint, AMT can be resolved in tax reform, but tax reform should not be the only avenue for a resolution. I'll be looking for the earliest legislative opportunity to reform the AMT. When we were wrapping up the budget resolution conference report, I responded to the criticism that the budget resolution didn't cover the AMT problem. In fact, as I discussed a moment ago, there is room for the hold harmless provision. In that statement, I also challenged the critics, primarily the Democratic leadership, to stop complaining and come up with an AMT reform plan. I'm pleased to say that, as is typical with this committee, the challenge is being taken up by Finance Committee Democrats. Senator Baucus and Senator Wyden are joining with Senator Kyl and me in this effort. As always, the Finance Committee, on a bipartisan basis, is trying to solve a key problem affecting millions of American families. So, I say to the Democratic leadership, get out of the way. Quit complaining about the AMT. Let the Finance Committee, on a bipartisan basis, do something about the problem. I couldn't be more pleased, Mr. Chairman, that this committee, as it did in 1999 and 2001, is once again, taking the lead on fixing the AMT.

We will be introducing a bill shortly. The bill will call for repeal of the AMT. Now, some will note that the revenue loss is over \$600 billion for repeal. It is still higher if the bipartisan tax relief is extended past 2010. We all recognize that is a high number. We will need to get it to a reasonable level. I'd remind my colleagues that if we extend current law AMT relief provisions, we're looking at a revenue loss of \$385 billion. It appears the Congress, on a bipartisan basis, has already accepted that figure. Who would argue that we shouldn't extend the hold harmless because it is not offset? I'd like the panel to answer a couple of questions. We're talking about an unintended tax which balloons federal revenue as a percentage of GDP. My question is this. Is it appropriate to assume that the federal revenue windfall from the AMT must be offset with other tax increases? Put another way, if we're assuming all of the revenue from the AMT must be replaced, aren't we assuming historically high levels of federal tax as a percentage of GDP?